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Ukraine will not extend its gas transit contract with Gazprom – the consequences for Moldova

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On 17 March, Ukraine's energy minister Herman Halushchenko repeated that his country had no plans to extend its existing contract with Gazprom for the transit of Russian gas through Ukrainian territory. The five-year agreement, which was signed in 2019, expires at the end of this year. Currently, Russian gas is being supplied via this route free of charge to Moldova's breakaway region of Transnistria, which meets 100% of its needs with gas provided by Gazprom. As recently as December 2023, Moldova's energy minister remarked that although the separatist region could technically obtain gas from other sources, it would have to pay the market price for it, which Transnistrian consumers "might not survive".

Commentary

- Ending the transit of Russian gas through Ukrainian territory from 2025 would be particularly important for Moldova and the Russian-supported breakaway region of Transnistria on its territory. Indeed, the economy of this para-state has depended for decades on Russian gas, which Gazprom has been supplying free of charge under a Moldovan-Russian agreement as a kind of politically motivated subsidy. Currently, Russia supplies Transnistria with around 2 bcm of gas every year. This fuel is then sold to the region's individual consumers and companies at very low prices; the proceeds go to the region's budget and help finance the para-state's public expenditures, such as its pension system. The free gas also makes it possible to maintain very low prices for utilities such as heating, which is particularly important for the population (gas tariffs in Transnistria are less than a seventh of those for residents of Moldova proper). More importantly, the cheap Russian gas combined with the relatively low-cost labour available to the region's companies, as well as the fact that the 'republic' is covered by the 2014 EU-Moldova agreement on the Deep and Comprehensive Free Trade Area (DCFTA), have helped the region's businesses (especially in sectors such as metallurgy, clothing and alcoholic beverages) to remain highly competitive on European markets and profit from their exports.
- If Russian gas supplies to Transnistria are halted, this could cause its economy to collapse or reduce its competitiveness significantly, as its budget deficit would swell and industry would grind to a standstill. Just the suspension of production by the Rybnitsa Metallurgical Plant, a highly energy-intensive steelworks that accounts for around 50% of the region's exports, would deal a serious blow to the 'republic'. In the long term, the

Moldavskaya GRES power plant (MGRES), which is located in Transnistria and owned by the Russian company Inter RAO, would also be unable to continue its operations; that would leave Transnistria without access to electricity, and also make it impossible for the region to profit from its sales to Moldova proper, which currently relies on this power plant for 80% of its electricity consumption.

- Should transit through Ukraine come to an end, Transnistria would be forced to find other sources of gas supplies. Although such an option would be significantly more expensive, it is formally possible. The Moldovan government has been supplying the territory of Moldova proper with non-Russian gas (purchased on the TTF exchange, among others) since late 2022, and has stated that it could send gas purchased from European suppliers to this region via reverse mode on the Trans-Balkan pipeline in return for payment, or use the existing route and sell Transnistria its own gas stored in underground tanks in Ukraine. As Ukraine and Moldova have joined the vertical corridor, Transnistria could also import gas directly from Hungary via Ukrainian territory/infrastructure. Theoretically, Russia could also provide Transnistria with gas via TurkStream, although in this situation it is unclear whether Moscow would still be interested in continuing free supplies.

- However, the government in Chişinău appears to be interested in maintaining the supplies of free Russian gas to Transnistria. It is concerned that any destabilisation of the Transnistrian economy could trigger a wave of economic migration from this region to Moldova proper, something it is currently not ready for. Moreover, the current model gives Moldova access to cheap electricity produced by MGRES. If this power plant stopped operating or started using gas purchased at market prices, Moldova would be forced to drastically hike prices for its end-users. This would be a particularly significant development in the context of the population's growing dissatisfaction with Moldova's pro-Western government and the upcoming parliamentary elections scheduled for mid-2025. At the same time, Russia also appears to be interested in continuing its free gas supplies to Transnistria via the current connection. While stopping the gas supplies would destabilise the situation in Moldova in the short term (which is in Russia's interest) and place a heavy burden on that country's administration and budget (which would have to partially cover some of the costs of keeping Transnistria going, at least initially), in the long term it would reduce Russian influence in Transnistria and increase its dependence on the government in Chişinău.